Licensing Reform
HB 1533/SB 5715

Testimony of Insurance Commissioner Mike Kreidler

Testimony: Licensing Reform

10 a.m., Feb. 13, 2007
Senate Financial Institutions
1:30 p.m., Feb. 15, 2007
House Financial Institutions & Insurance Committee

Opening

Washington state's process for licensing insurance agents and brokers is an antiquated process that:

- Lacks efficiency…
- Lacks consistency with other states…
- and lacks a future

Current picture

- We license nearly 91,000 agents and brokers who do business in Washington.
- Our process today is paper-dependent…
- Having relied on a 21-year-old computer system that predates the Internet.

The good news is that we have just integrated our licensing system into our new centralized computer system. We're making progress with on-line capabilities and other customer service improvements.

Now we're poised to take the next step.

A growing issue… because of today's changing market

- Insurance companies have shifted their emphasis away from just local/state business… to a much broader national/ international base.
- Of the 91,000 agents and brokers licensed to sell insurance in Washington… more than ½ are from elsewhere, based in other states.
- The resulting problem is lack of uniformity and reciprocity between states.

Key reason we need this bill – Pressure at the national level

- The insurance industry is pushing for a federal insurance regulator to replace state insurance departments.
- "License reform" is one of the three drivers in the industry's campaign for federal regulation.
- But federal regulation is not the solution.

What this bill does

- Allows the agency to capitalize on our **new technology** (previously approved by the Legislature)

- Creates a **single "producer" license** – Eliminates the need for two separate licenses for agents and brokers.

- Licensing process is the only change – **business relationships of agents and brokers is not affected**

- It's revenue neutral – fees generated go to the General Fund

Taking our cue from the national model – joining 38 other states

Our proposal is modeled after what other states do, but we've customized it to Washington… all in the name of consumer protection.

Three changes:

- **Fingerprints** – We will still require fingerprints as our current law does… with a waiver for residents in 12 states that have their own fingerprint requirements.

- **Bonding** – Maintains another consumer protection feature. Companies stand behind their licensees. Bonds will protect consumers who deal with independent licensees.

- **Compensation Disclosure** –

  - **Fees** are paid to brokers by insureds (policyholders) for assistance in placing their business with an insurer.

  - **Commissions** are paid by insurers to agents as compensation for selling the insurer's products.

  - **Disclosure** — Brokers must disclose "full amount of compensation" to the insured (policyholder) when charging a fee and collecting a commission.

There's been a lot of attention on the disclosure issue

- Disclosure allows consumers to make informed purchasing decisions, knowing how producers will be compensated.

- We are committed to ensuring that the impact of this bill on agents and brokers, and the transaction of business is minimal . . . while still ensuring that consumers get all the information they need to make informed decisions.

Wide–spread support

- Been working with stakeholders and industry since last June

- Most industry organizations, including agent and brokers groups support the overall issue

- The pushback is on only one piece of the bill – disclosure – and it's from one association, but we've been working collaboratively on language that will work for everyone.

Federal regulation is not the solution

I urge passage of this bill to send a clear message from the "Other Washington" that state-based regulation can be sensitive to the insurance industry's national concerns.

Just as importantly, this bill is **good for consumers**. When consumers call us, they get a live person. When was the last time you called a federal agency for help and there was a live person on the other end of the line?

Thank you

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